

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 IO-13 ISO-00 SOE-02 AID-05 CEA-01
CIAE-00 COME-00 DODE-00 EB-08 DOE-11 H-01 INR-07
INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-05 USIA-06
OES-07 SP-02 SS-15 STR-06 TRSE-00 ACDA-12 FRB-03
LAB-04 SIL-01 AGRE-00 PA-01 CTME-00 ITC-01 PRS-01
/149 W

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P 122101Z JAN 78
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC PRIORITY 4228
INFO ALL EC CAPITALS
USMISSION GENEVA PRIORITY
AMEMBASSY TOKYO PRIORITY

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USEEC

GENEVA ALSO FOR USMTN
PARIS ALSO FOR USOECD
TOKYO PASS TO AMBASSADOR STRAUSS
PARIS PASS TO UNDERSECRETARY COOPER

E.O.11652:N/A
TAGS: ETRD, EEC
SUBJECT: US-EC STEEL CONSULTATIONS

1. US DELEGATION HAD TWO DAYS OF INTENSIVE DISCUSSIONS
WITH THE EC REPRESENTATIVES REGARDING NEW EC STEEL PLAN
AND US TRIGGER PRICE SYSTEM. BOTH US AND EC REPS (BRAUN,
CASPARI, PETERS, SCHAEFFER)HAD A DETAILED EXCHANGE OF
CONCERNS AND QUESTIONS OVER RESPECTIVE SYSTEMS. THE
FOLLOWING POINTS EMERGED.

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2. EC'S NEW STEEL PLAN WILL CONSIST OF TWO PHASES. FIRST
PHASE IMPLEMENTED JANUARY 5, 1978 IS BASE PRICE SYSTEM
BASED ON REVISED EC ANTIDUMPING LAW. IT PROVIDES FOR
RAPID IMPOSITION OF COMPENSATORY DUTIES WHEN MONITORING
BY EC CUSTOMS OF 140 ODD STEEL PRODUCTS REVEAL SALES
BELOW THE EC'S CALCULATED BASE PRICES. EC REPS NOW
INDICATE THAT THERE MUST BE BOTH A COMPLAINT AND EVIDENCE

OF INJURY FROM SALES BELOW "NORMAL VALUE". THIS IS CONTRARY TO INITIAL REPORTS THAT DUTIES WOULD BE IMPOSED IMMEDIATELY. BESELER INDICATED SUBSTANTIAL PORTION OF EC STEEL IMPORTS HAD ALREADY BEEN SUBJECT OF DUMPING COMPLAINTS, AND A NUMBER OF THESE WOULD BE PUBLICLY KNOWN IN A FEW DAYS. BASE PRICE SYSTEM WILL NOT BE DISMANTLED APRIL 1, 1978 AS PREVIOUSLY REPORTED, BUT WILL CONTINUE IN FORCE AS BASIC MEASURE FOR IMPOSING COMPENSATORY DUTIES AND EXPEDITING EC ANTI-DUMPING PROCEDURES.

3. FOR SECOND PHASE EC HOPES BY APRIL 1, 1978 TO COMPLETE BILATERAL NEGOTIATIONS ON PRICES AND QUANTITIES WITH MAJOR SUPPLYING COUNTRIES (JAPAN, EAST EUROPEANS, SPAIN SOUTH AFRICA, BRAZIL). SPAIN AND EAST EUROPEANS CONTINUE TO BE QUESTION MARKS. EC FEELS CONFIDENT HOWEVER THAT ALL COUNTRIES WILL GO ALONG. NEGOTIATED PRICES WILL BE TIED TO EC'S INTERNAL GUIDANCE PRICES. THE LATTER MAY BE RAISED BY 10 PERCENT OVER THE NEXT 6 MONTHS, WITH SECOND INCREASE ON APRIL 1, 1978. FIRST WAS INSTITUTED WITH JANUARY 5 (5 PERCENT) ANNOUNCEMENT OF BASE PRICES. POSSIBILITY OF A THIRD 5 PERCENT INCREASE WAS LEFT OPEN. LEVEL OF NEGOTIATED PRICES ARE EXPECTED TO BE APPROXIMATELY 6 PERCENT TO 7 PERCENT BELOW INTERNAL GUIDANCE PRICES. EC CHARACTERIZES THIS MARGIN AS NECESSARY TO ENSURE HISTORICAL (1976) LEVEL OF IMPORTS. MARGINS WILL LIMITED OFFICIAL USE

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BE MAINTAINED THEREFORE AS INTERNAL PRICES RISE SO WILL NEGOTIATED PRICES. MARGINS BETWEEN NEGOTIATED AND INTERNAL GUIDANCE PRICES MAY BE ADJUSTED HOWEVER TO ENSURE 1976 IMPORT LEVELS ARE ACHIEVED.

4. BILATERAL AGREEMENTS ON QUANTITY TARGETS WILL BE BASED ON 1976 MARKET SHARE TRANSLATED INTO TONNAGES. THIS WILL BE ADJUSTED FOR DOMESTIC DEMAND. CURRENTLY NO SPECIAL PROVISION IS MADE FOR LDC'S OR NEW SUPPLIERS. EC CHARACTERIZES QUANTITY AGREEMENTS AS ASSURANCES INDICATING THAT ONCE PREDETERMINED 1976 TRADE LEVEL WAS ACHIEVED BY SUPPLIERS, COMMISSION WOULD ALLOW ALIGNMENT OF EC PRODUCERS TO IMPORT PRICES AND TAKE STANDARD ANTI-DUMPING ACTION IF IMPORT PRICES FALL BELOW EC NEGOTIATED PRICES.

5. THE EC'S PHASE II SYSTEM, THEREFORE, INCLUDES THREE DISTINCT PRICES: A BASE PRICE (THEORETICALLY BASED ON MOST EFFICIENT FOREIGN PRODUCER) A NEGOTIATED IMPORT PRICE FOR COOPERATING EXPORTERS, AND AN INTERNAL MINIMUM OR GUIDANCE PRICE REPRESENTING THE PRICE AT WHICH EC STEEL PRODUCERS AND TRADERS SHOULD SELL INTERNALLY.

6. THE EC FEELS THIS SYSTEM IS COMPATIBLE WITH THE UNDER-
STANDING IN THE OECD IN THAT "IT TAKES INTO ACCOUNT
TRADITIONAL PATTERNS OF TRADE", AND IS CONSISTENT WITH
THE EC LAW AND THE INTERNATIONAL ANTIDUMPING CODE. THE
EC HAS MADE CHANGES, CONSISTENT WITH THE GATT IN ITS
ANTIDUMPING LAW.

7. WITH RESPECT TO US SYSTEM, EC REPS (GOVERNMENT AND
INDUSTRY) CONTINUE TO SEE IT AS EITHER A MIP OR A SYSTEM
TO ACHIEVE A PREDETERMINED TARGET FOR IMPORTS. THEY ALSO
VIEW IT AS AUTOMATIC. US DEL VIGOROUSLY REAFFIRMED THAT
INTENT WAS NOT TO STOP FAIR TRADE AND WAS SOLELY TO DETER
DUMPING OF STEEL IN US MARKET OR TO EXPEDITE TREASURY
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ACTION WHERE THERE IS POTENTIAL DUMPING. IT IS NOT
AUTOMATIC AND NOT A MIP. PERHAPS THE MESSAGE GOT THROUGH,
BUT THESE POINTS SHOULD BE HAMMERED HOME REPEATEDLY TO

EC REPS.

8. EC'S MAIN INTEREST IS FLEXIBILITY OF US TP AND THAT US TRIGGER PRICES NOT EXCLUDE SOME EUROPEAN PRODUCTS WHERE TP MAY BE ABOVE OR NEAR US LIST PRICES.

9. DURING TALKS US NOTED FOUR POTENTIAL PROBLEMS AREAS: FIRST, EC PLAN WILL MOTIVATE OTHERS TO ADOPT SAME OR SIMILAR SYSTEMS TO ARRANGE THEIR MARKETS, THUS PROLIFERATING MARKET SHARING ARRANGEMENTS AND CARTELIZING THE STEEL INDUSTRY. FOR EXAMPLE, EFTA COUNTRIES AS PART OF THEIR BILATERAL ARRANGEMENT WITH THE EC MEMBER COUNTRIES WILL BE EXPECTED TO ADOPT NEW EC INTERNAL GUIDANCE PRICES. THEY WILL IN ALL PROBABILITY ALSO HAVE TO ARRIVE AT MINIMUM IMPORT PRICES NEGOTIATED OR OTHERWISE CONSISTENT LIMITED OFFICIAL USE

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WITH THESE NEW HIGHER GUIDANCE PRICES. SECOND, DEL QUESTIONED WHETHER EC PLAN AS STATED WILL WORK. CONTROL OF IMPORTS AT 1976 LEVELS IS BASED IN THE FIRST INSTANCE ON THE ASSUMPTION BY THE EC THAT PRICE ALIGNMENT OF PRODUCERS WILL PREVENT FURTHER IMPORTS. HOWEVER, ALIGNMENT DIRECTED SOLELY AT OFFENDING EXPORTERS MAY UNDERCUT SALES OF NON-OFFENDERS THUS UNDERMINING THEIR GUARANTEES. THIRD, TO THE EXTENT EC IS SUCCESSFUL IN INCREASING INTERNAL GUIDANCE PRICES AND ACHIEVING COMPLIANCE BY EC PRODUCERS, MARGINS BETWEEN EC HOME MARKET PRICE AND EC EXPORT PRICE WILL EXPAND. CURRENT ESTIMATES INCLUDING TRANSPORTATION COSTS SHOW THAT THE MARGIN BETWEEN EC GUIDANCE PRICES AND EXPORT PRICES TO THE US MAY INCREASE TO ABOUT 30 PERCENT. WITH THIS INCREASE IN MARGIN, US PRODUCERS WOULD HAVE MORE BASIS FOR FILING COMPLAINTS AGAINST EC PRODUCERS. FOURTH, IF EC MEASURES ARE PERCEIVED IN THE US AS GOING FAR BEYOND OUR MEASURES, THERE MAY BE DOMESTIC PRESSURES FOR FURTHER USG ACTIONS.

10. DELEGATION MET WITH COMMISSIONER DAVIGNON WHO STRESSED FUNDAMENTAL DIFFERENCES IN OUR CONCERNS WITH RESPECT TO THE STEEL PROBLEM AND THE RESULTING NEED FOR DIFFERENT APPROACHES. WITH RESPECT TO THE QUANTITATIVE ELEMENT OF THE EC APPROACH HE SUGGESTED THAT THE USG NOT OVER-PLAY ITS CONCERNS BECAUSE THIS WOULD MAKE LIFE VERY DIFFICULT FOR THE COMMISSION. HE INDICATED HE WAS WELL AWARE OF OUR CONCERNS AND WOULD BE SENSITIVE TO THEM IN PRESENTING HIS PROGRAM. US WELCOMED FRANKNESS OF EC DURING THE TALKS BUT NOTED THEY HAVE NOT RESOLVED ALL OUR CONCERNS, PARTICULARLY THOSE NOTED IN PARAGRAPH 9 ABOVE WHICH US DEL REITERATED.

11. DAVIGNON INDICATED THAT THE COMMUNITY IS SEEKING

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BILATERAL AGREEMENTS BECAUSE IT FEELS THEY WILL BE MORE EFFECTIVE AND DURABLE THEN UNILATERAL MEASURES AND WILL ALSO BE EASIER TO ADMINISTER. HE INDICATED THAT HE HAD ALREADY MET WITH THE EFTA AMBASSADORS TWICE AND ALSO WITH EASTERN EUROPEANS AND WAS VERY CONCERNED AT THEIR REPORT THAT THE US WAS OPPOSED TO SUCH BILATERAL AGREEMENTS. THE DELEGATION INDICATED THAT THERE HAD BEEN NO US EFFORT WITH OTHER COUNTRIES TO DISCOURAGE THEIR COOPERATION WITH THE COMMUNITY. DAVIGNON STATED THAT EXPORT LICENSING ON STEEL ALREADY EXISTS IN SEVERAL COUNTRIES, INCLUDING BRAZIL, KOREA, AND SPAIN. THIS WAS OUR FIRST OFFICIAL CONFIRMATION AT SUCH ARRANGEMENTS WERE IN EXISTENCE.

12. WITH RESPECT TO THE US TRIGGER PRICES SYSTEM, DAVIGNON EXPRESSED GREAT CONCERN ABOUT THE EFFECT OF TRIGGER PRICES IN CERTAIN REGIONS AND PRODUCTS ON EUROPEAN EXPORTS BUT ASSURED US THAT HE WILL TRY TO AVOID SPECIFIC CRITICISM.

13. IN A DISCUSSION OF THE NEXT OECD STEEL MEETING, DAVIGNON REQUESTED POSTPONEMENT TO PERMIT HIS NEGOTIATIONS WITH THE EFTA COUNTRIES, JAPAN, AND SPAIN TO REACH A POINT WHERE HE COULD ASSESS WHAT WILL HAPPEN ON APRIL 1. HE PROPOSED THAT THE NEXT OECD DISCUSSION INCLUDE SHARING OF INFORMATION AMONG THE MEMBER STATES PARTICULARLY REGARDING PROBLEMS THAT HAVE BEEN IDENTIFIED AS THE DETAILS OF VARIOUS MEASURES BECOME AVAILABLE. HE SUGGESTED FURTHER REVISION OF THE OECD DECLARATION TO: A) STRESS TEMPORARY NATURE OF THE STEEL CRISIS AND THE MEASURES BEING TAKEN; B) RECOGNIZE THE CRISIS EXTENDS TO NON-OECD COUNTRIES AND THAT OECD MEMBERS MUST RECOGNIZE THIS IN THEIR ACTIONS AND C) DEAL WITH THE PROBLEM OF THE RAMIFICATIONS OF STEEL DUMPING ON TRADE IN PRODUCTS PRODUCED FROM STEEL.

14. IT WAS AGREED THAT WE WOULD SUGGEST THE WEEK OF LIMITED OFFICIAL USE

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FEBRUARY 13 FOR THE SCHEDULING OF THE OECD MEETING.

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IT ALSO WAS AGREED TO SCHEDULE A TRILATERAL MEETING
BETWEEN THE US, EC AND JAPAN PRIOR TO AND SEPARATE
FROM THE OECD DISCUSSION. HINTON

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Message Attributes

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